

SPENCER COUNTY SCHOOL DISTRICT
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

Year ended June 30, 2005

SPENCER COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS

Year ended June 30, 2005

	<u>Page</u>
Independent Auditor's Report.....	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	9
Statement of Activities.....	10
Fund Financial Statements	
Balance Sheet--Governmental Funds	11
Reconciliation of the Balance Sheet--Governmental Funds to the Statement of Net Assets.....	12
Statement of Revenues, Expenditures and Changes in Fund Balances--Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances--Governmental Funds to the Statement of Activities	14
Statement of Net Assets--Proprietary Funds.....	15
Statement of Revenues, Expenses and Changes in Net Assets-- Proprietary Funds	16
Statement of Cash Flows--Proprietary Funds	17
Statement of Fiduciary Net Assets--Fiduciary Fund.....	18
Notes to the Basic Financial Statements	19

Continued

SPENCER COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS--CONTINUED

Year ended June 30, 2005

	<u>Page</u>
Supplementary Information	
Statement of Revenues, Expenditures and Changes in Fund Balance--Budgetary Comparison Schedule--General Fund.....	35
Statement of Revenues, Expenditures and Changes in Fund Balance--Budgetary Comparison Schedule--Special Revenue Fund.....	36
Combining Statements--Nonmajor Funds	
Combining Balance Sheet--Nonmajor Governmental Funds.....	37
Combining Statement of Revenues, Expenditures and Changes in Fund Balances--Nonmajor Governmental Funds	38
Combining Statements--Activity Funds	
Combining Statement of Assets, Liabilities and Fund Balance-- Activity Funds.....	39
Activity Funds: Spencer County High School	40
Schedule of Expenditures of Federal Awards	42
Notes to the Schedule of Expenditures of Federal Awards	43
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	44
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	45
Schedule of Current Year Audit Findings:	
Schedule of Findings and Questioned Costs.....	47
Schedule of Prior Year Audit Findings.....	48
Management Letter Comments.....	49

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Spencer County Board of Education
Taylorsville, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Spencer County School District (the "District") as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract - General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract - Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Spencer County School District as of June 30, 2005, and the respective changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated September 2, 2005, on our consideration of Spencer County School District's internal control structure over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and Budgetary Comparison Information on pages 3 through 8 and 35 through 36 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The additional information shown on pages 37 through 40 is presented for the purpose of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on pages 42 through 43 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Mountjoy & Brenner, LLP

Louisville, Kentucky
September 2, 2005

SPENCER COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Year ended June 30, 2005

As management of the Spencer County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$2.3 million in 2004 and \$4.8 million in 2005, including a construction fund cash balance of \$1.4 million.
- No funds of the District have a deficit fund balance. However, after other financing sources and uses, the Building Fund and the Day Care Fund had operations that resulted in a current year deficit of revenues over expenditures resulting in reductions of fund balance in the amounts of \$10,661,833 and \$13,860 respectively.
- Previous to fiscal year 2003, the Board maintained a rotation of the bus fleet by budgeting for bus purchases. In anticipation of reductions in State Funding, the Board chose not to purchase buses during the fiscal year 2003. The Board did enter into a KISTA bus lease agreement in fiscal year 2004 in order to resume the rotation of the bus fleet, purchasing three buses. The Board purchased ten well-maintained used buses in 2005.
- House Bill 269 provided the use of Capital Outlay funds to pay for property insurance premiums and maintenance projects for the fiscal year 2005 with approval from the Kentucky Department of Education. The Board approved the use of Capital Outlay funds in the amount of \$21,500 to pay for the removal of a coal furnace and installation of an oil fueled furnace at Taylorsville Elementary School facility.
- The District continues to experience growth. The District grew 36.1% in student enrollment since fiscal year 1998. The growth rate experienced in fiscal year 2005 was 3.4%. Projections recognize additional growth of 3. % for fiscal year 2006.
- Following the amendment of the District long-range plan for facilities, there is a focus on investing in plant management with the age and size of our facilities reflective of this need.
- The District broke ground in June 2004 for the new middle school designed to house 700 students, grades 6-8, the building has an estimated completion cost of \$14.5 million to be occupied in August 2005. Bonds totaling \$13.8 million were issued with an average coupon rate of 4.8%. Renovations of the current middle school to a second elementary site designed to house 500 students, grades K-5, are scheduled to begin July 2005. Bonds are scheduled to be issued in the amount of \$755,000 July 2005. Renovations are scheduled to be complete December 2005.
- The District's General Fund had revenue of \$13.4 million, which primarily consisted of the state (SEEK), property, motor vehicle and utility taxes. There was \$12.7 in General Fund expenditures. The cost to provide services to the increasing student population continues to exceed the revenue derived from the new residential tax base and assessments. The District has no industrial tax base. As the District enters into the fiscal year 2006, budget concerns are focused on the cost to open two new school sites, implementation of full day kindergarten, competitive salaries for teachers, increased transportation cost, staffing needs and pursuing the district vision for technology based learning.

Continued

SPENCER COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Year ended June 30, 2005

- The District remains committed to student achievement with a focus on professional development. A concerted effort to reduce purchasing in areas other than classroom instruction and professional development is reflective in the fiscal year 2006 budget.
- Bonds are issued as the district constructs or renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total debt decreased \$.6 million during the current fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Taxes and intergovernmental revenues also support fixed assets and related debt.

The government-wide financial statements can be found on pages 9 - 10 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. Proprietary funds are our vending and food service operations and our before and after school child care services. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 11 - 18 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19 - 34 of this report.

SPENCER COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Year ended June 30, 2005

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2005

2005 Government Wide Net Assets compared to 2004 are as follows:

	2005	2004
Current Assets	\$ 7,102,032	\$ 16,647,129
Noncurrent Assets	22,094,184	11,723,521
Total Assets	\$ 29,196,216	\$ 28,370,650
Current Liabilities	\$ 1,932,900	\$ 1,565,960
Noncurrent Liabilities	22,274,858	23,142,386
Total Liabilities	\$ 24,207,758	\$ 24,708,346
Net Assets		
Investment in capital assets (net of debt)	\$ (929,784)	\$ 1,840,309
Restricted	(13,965,635)	(13,474,310)
Unreserved Fund Balance	19,883,877	15,296,305
Total Net Assets	\$ 4,988,458	\$ 3,662,304

The following table presents a fund accounting comparison and summary of revenue and expense for the Government Funds only for the fiscal years 2004 and 2005.

	2005	2004
Revenues		
Local revenue sources	\$ 4,685,122	\$ 4,195,194
State revenue sources	11,726,087	11,225,731
Federal revenue	1,210,421	1,033,838
Investments	178,862	193,414
Other sources	-	222,188
Total Revenues	17,800,492	16,870,365
Expenses		
Instruction	\$ 9,682,661	\$ 9,460,562
Student support services	506,776	609,723
Instructional support	657,159	464,590
District administration	456,817	471,481
School administration	728,214	769,555
Continued		

SPENCER COUNTY SCHOOL DISTRICT

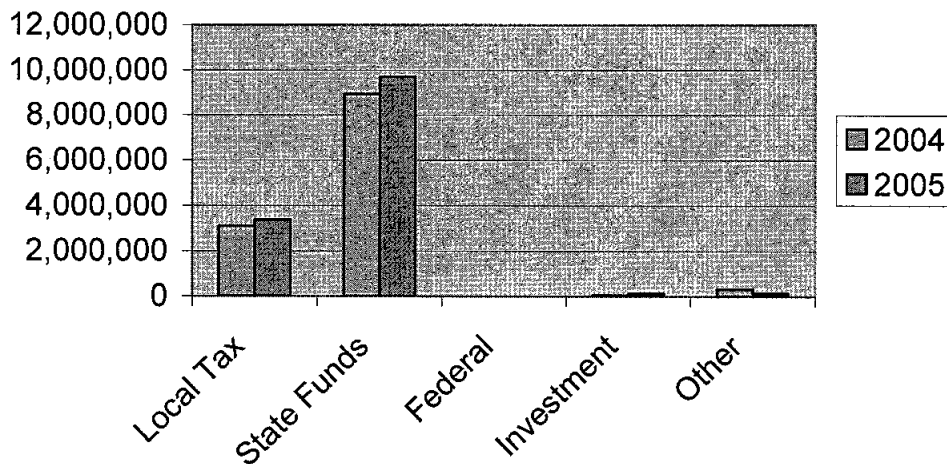
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Year ended June 30, 2005

	2005	2004
Business support	404,606	358,450
Plant operations	1,122,317	1,050,713
Enterprise operation	13,702	16,360
Student transportation	1,265,884	1,198,597
Facilities acquisition	10,709,719	982,641
Community support	109,397	120,427
Adult education services	4,284	
Other	25,366	83,166
Debt service	1,608,811	1,002,131
Total Expenses	\$ 27,295,713	\$ 16,588,396
Excess (Deficit) of Revenues Over Expenditures	\$ (9,495,221)	\$ 281,969

General Fund Revenue

The majority of revenue in 2005 was derived from state funding (73%) as compared with fiscal 2004 (72%). The local tax revenue makes up 25% as compared to 25% of total revenue in 2004.



Continued

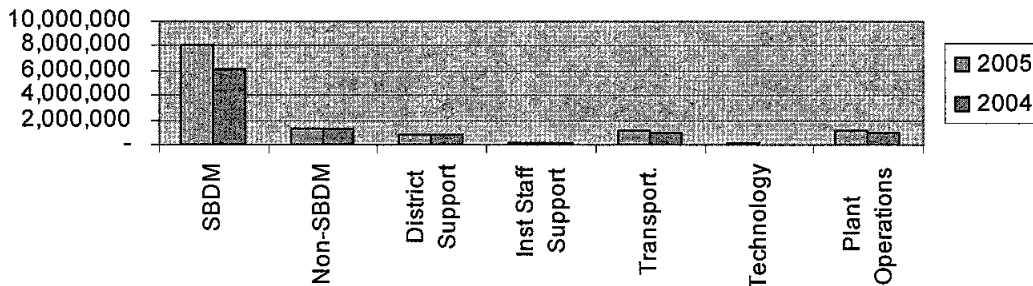
SPENCER COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Year ended June 30, 2005

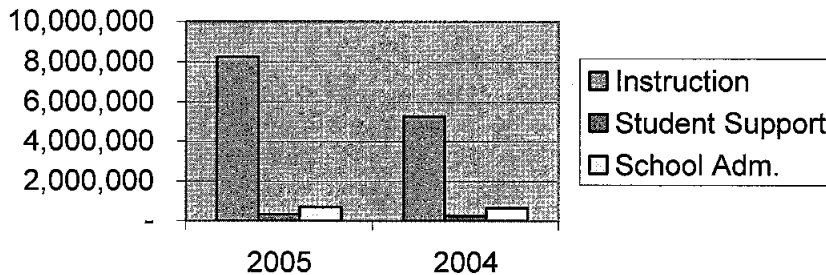
Budget Allocation

Site Based Decision Making Councils expended 63% of the general fund budget, the majority of the Non-SBDM funds (10%) was spent serving children with special needs, providing district wide gifted and talented instruction and alternative instruction. The remaining 27% was expended for district support services (6%), instructional staff support (2%), technology (1%), transportation (9%), and plant operation (9%).



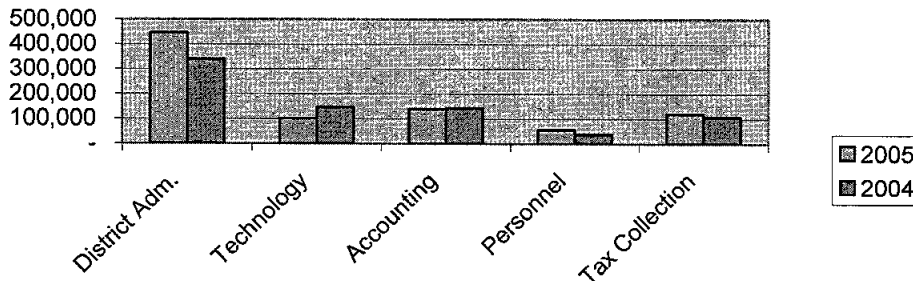
School Allocation

Classroom instruction accounts for 89% of the school level expenditures.



Central Office Allocation

Many members of the community are interested in monitoring Central Office Support Services. District administration (school board activities, superintendent's office and director of operations), technology department, accounting department, personnel department and tax collection fees make up the Central Office Support Services.



Continued

SPENCER COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Year ended June 30, 2005

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with \$855,115 in contingency, approximately (5%). The District will be implementing full day kindergarten beginning with the 2005-2006 school year and will no longer be providing mid-day transportation. The District adopted a school calendar for 2005-2006 that no longer contains early release for students on Fridays. Instead, the calendar contains nine full days for staff professional development in which the students are not in attendance. Both of these actions should have produced a savings to the District of approximately \$150,000 in transportation cost. The District will not recognize the reduction in transportation cost due to the recent rise in diesel fuel prices.

Questions regarding this report should be directed to the Superintendent (502)477-3250 or to Vicki Goodlett, Director of Financial Services (502)477-3250 or by mail at 207 West Main Street, Taylorsville, KY 40071.

SPENCER COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

ASSETS	Governmental Activities	Business- Type Activities	Total
Current Assets			
Cash and cash equivalents	\$ 4,355,630	\$ 180,599	\$ 4,536,229
Investments – construction	2,012,437	-	2,012,437
Inventory	-	23,867	23,867
Accounts receivable:			
Taxes – current	90,098	-	90,098
Intergovernmental – State	10,795	6,290	17,085
Intergovernmental – Indirect Federal	342,794	26,975	369,769
Other	52,547	-	52,547
Total current assets	6,864,301	237,731	7,102,032
Non-current Assets			
Bond issue costs	88,254	-	88,254
Discount on bonds	102,098	-	102,098
Deferred amount on refunding	24,660	-	24,660
Capital assets, net	9,910,238	119,102	10,029,340
Non-depreciable capital assets	11,849,832	-	11,849,832
Total non-current assets	21,975,082	119,102	22,094,184
Total assets	\$ 28,839,383	\$ 356,833	\$ 29,196,216
LIABILITIES			
Current Liabilities			
Book overdraft	\$ 212,096	\$ 5,716	\$ 217,812
Accounts payable	150,076	17,987	168,063
Deferred revenue	88,185	-	88,185
Current portion of bond obligations	865,000	-	865,000
Current portion of capital leases	30,765	-	30,765
Current portion of accrued sick leave	141,878	-	141,878
Interest payable	421,197	-	421,197
Total current liabilities	1,909,197	23,703	1,932,900
Non-current Liabilities			
Non-current portion of bond obligations	21,930,000	-	21,930,000
Non-current portion of capital leases	196,407	-	196,407
Non-current portion of accrued sick leave	148,451	-	148,451
Total non-current liabilities	22,274,858	-	22,274,858
Total liabilities	24,184,055	23,703	24,207,758
Net Assets			
Invested in capital assets, net of related debt	(1,047,090)	117,306	(929,784)
Restricted for:			
Construction	(14,826,801)	-	(14,826,801)
Debt service	748,666	-	748,666
Other purposes (nonexpendable)	112,500	-	112,500
Unrestricted	19,668,053	215,824	19,883,877
Total net assets	4,655,328	333,130	4,988,458
Total liabilities and net assets	\$ 28,839,383	\$ 356,833	\$ 29,196,216

See independent auditor's report and accompanying notes to basic financial statements

SPENCER COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

FUNCTIONS/PROGRAMS

Governmental Activities

	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
			Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
Instruction	\$ 9,977,806	\$ 63,568	\$ 1,382,935	\$ -	\$ (8,531,303)	\$ -	\$ (8,531,303)
Support services							
Student	505,442	-	172,324	-	(333,118)	-	(333,118)
Instruction staff	664,443	-	421,533	-	(232,910)	-	(232,910)
District administrative	470,900	-	-	-	(470,900)	-	(470,900)
School administrative	721,135	-	23,914	-	(697,221)	-	(697,221)
Business	404,606	-	-	-	(404,606)	-	(404,606)
Plant operation and maintenance	1,124,279	-	-	-	(1,124,279)	-	(1,124,279)
Student transportation	1,321,940	-	113,608	-	(1,208,332)	-	(1,208,332)
Other	32,278	-	1,368	-	(30,910)	-	(30,910)
Facilities acquisition and construction	41,323	-	-	1,051,636	1,010,313	-	1,010,313
Community service activities	109,397	-	99,532	-	(9,865)	-	(9,865)
Interest on long-term debt	1,118,663	-	-	-	(1,118,663)	-	(1,118,663)
Bond discount amortization	13,501	-	-	-	(13,501)	-	(13,501)
Loss on sale of assets	5,017	-	-	-	(5,017)	-	(5,017)
Total governmental activities	16,500,730	63,568	2,215,214	1,051,636	(13,170,312)	-	(13,170,312)

Business-Type Activities

Food service	1,034,180	560,321	512,953	-	-	39,094	39,094
Day care	124,843	104,050	1,847	-	-	(18,946)	(18,946)
Total business-type activities	1,159,023	664,371	514,800	-	-	20,148	20,148
Total primary government	\$ 17,659,753	\$ 727,939	\$ 2,730,014	\$ 1,051,636	(13,170,312)	20,148	(13,150,164)

General Revenues

Taxes:							
Property taxes	3,518,004						3,518,004
Motor vehicle taxes	505,154						505,154
Utility taxes	499,761						499,761
Investment earnings	178,862				5,310		184,172
State and formula grants	9,670,629				-		9,670,629
Miscellaneous	97,665				-		97,665
Excess of Revenues Over Expenditures	14,470,075				5,310		14,475,385
Other Financing Sources (Uses)							
Operating transfers in	-				14,434		14,434
Operating transfers out	(14,434)				-		(14,434)
Insurance payments	933				-		933
Total other financing sources (uses)	(13,501)				14,434		933
Change in net assets	1,286,262				39,892		1,326,154
Net assets, beginning of year	3,369,066				293,238		3,662,304
Net assets, end of year	\$ 4,655,328				\$ 333,130		\$ 4,988,458

See independent auditor's report and accompanying notes to basic financial statements

SPENCER COUNTY SCHOOL DISTRICT

BALANCE SHEET--GOVERNMENTAL FUNDS

June 30, 2005

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS AND RESOURCES					
Cash and cash equivalents	\$ 1,395,576	\$ -	\$ 1,433,153	\$ 1,526,901	\$ 4,355,630
Investments – construction	-	-	2,012,437	-	2,012,437
Accounts receivable:					
Taxes – current	90,098	-	-	-	90,098
Intergovernmental – State	-	10,795	-	-	10,795
Intergovernmental – Indirect Federal	-	342,794	-	-	342,794
Other	52,547	-	-	-	52,547
Total assets and resources	\$ 1,538,221	\$ 353,589	\$ 3,445,590	\$ 1,526,901	\$ 6,864,301
LIABILITIES AND FUND BALANCES					
Liabilities					
Book overdraft	\$ -	\$ 212,096	\$ -	\$ -	\$ 212,096
Accounts payable	59,411	53,308	37,357	-	150,076
Deferred revenue	-	88,185	-	-	88,185
Total liabilities	59,411	353,589	37,357	-	450,357
Fund Balances					
Reserved for:					
KSFCC escrow	-	-	-	692,618	692,618
Future construction	-	-	14,070,066	64,117	14,134,183
Encumbrances	91,000	-	-	21,500	112,500
Debt service	-	-	-	748,666	748,666
Unreserved:					
Undesignated, reported in:					
General fund	1,387,810	-	-	-	1,387,810
Construction	-	-	(10,661,833)	-	(10,661,833)
Total fund balances	1,478,810	-	3,408,233	1,526,901	6,413,944
Total liabilities and fund balances	\$ 1,538,221	\$ 353,589	\$ 3,445,590	\$ 1,526,901	\$ 6,864,301

See independent auditor's report and accompanying
notes to basic financial statements

SPENCER COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE BALANCE SHEET--GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS**

June 30, 2005

Total fund balance per governmental fund balance sheet \$ 6,413,944

Amounts reported for governmental activities in the statement of net
assets are different because:

Capital assets are not reported in this fund financial statement because
they are not current financial resources, but they are reported in the
statement of net assets. 21,760,070

Certain long-term assets are not reported in this fund financial statement
because they are not available to pay current-period expenditures, but
they are reported in the statement of net assets. 215,012

Certain liabilities (such as bonds payable, the long-term portion of accrued
sick leave, and accrued interest) are not reported in this fund financial
statement because they are not due and payable, but they are presented
in the statement of net assets. (23,733,698)

Net assets for governmental activities \$ 4,655,328

SPENCER COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES--GOVERNMENTAL FUNDS

Year ended June 30, 2005

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
From local sources:					
Taxes:					
Property	\$ 2,383,634	\$ -	\$ -	\$ 1,134,370	\$ 3,518,004
Motor vehicle	505,154	-	-	-	505,154
Utilities	499,761	-	-	-	499,761
Transportation fees	63,568	-	-	-	63,568
Earnings on investments	128,517	-	49,194	1,151	178,862
Other local revenues	62,110	36,525	-	-	98,635
Intergovernmental – state	9,703,873	970,578	-	1,051,636	11,726,087
Intergovernmental – indirect federal	-	1,208,111	-	-	1,208,111
Intergovernmental – direct federal	2,310	-	-	-	2,310
Total revenues	13,348,927	2,215,214	49,194	2,187,157	17,800,492
Expenditures					
Instruction	8,257,516	1,425,145	-	-	9,682,661
Support services:					
Student	334,452	172,324	-	-	506,776
Instruction staff	235,626	421,533	-	-	657,159
District administrative	456,817	-	-	-	456,817
School administrative	704,300	23,914	-	-	728,214
Business	404,606	-	-	-	404,606
Plant operation and maintenance	1,109,317	-	-	13,000	1,122,317
Enterprise operation	12,334	1,368	-	-	13,702
Student transportation	1,152,276	113,608	-	-	1,265,884
Facilities acquisition and construction	-	-	10,709,719	-	10,709,719
Community service activities	9,865	99,532	-	-	109,397
Adult education operations	4,284	-	-	-	4,284
Other	24,059	-	1,307	-	25,366
Debt service:					
Principal	-	-	-	770,000	770,000
Interest	-	-	-	838,811	838,811
Total expenditures	12,705,452	2,257,424	10,711,026	1,621,811	27,295,713
(Deficit) Excess of Revenues Over Expenditures	643,475	(42,210)	(10,661,832)	565,346	(9,495,221)
Other Financing (Uses) Sources					
Proceeds from sale of fixed assets	5	-	-	-	5
Operating transfers in	10,000	52,210	-	1,875,807	1,938,017
Operating transfers out	(66,643)	(10,000)	-	(1,875,807)	(1,952,450)
Insurance proceeds	933	-	-	-	933
Total other financing (uses) sources	(55,705)	42,210	-	-	(13,495)
Net change in fund balances	587,770	-	(10,661,832)	565,346	(9,508,716)
Fund balances, beginning of year	891,040	-	14,070,065	961,555	15,922,660
Fund balances, end of year	\$ 1,478,810	\$ -	\$ 3,408,233	\$ 1,526,901	\$ 6,413,944

See independent auditor's report and accompanying
notes to basic financial statements

SPENCER COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES--GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the Year ended June 30, 2005

Net change in total fund balances governmental funds	\$ (9,508,716)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.	10,334,460
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	780,695
Losses on the retirement of fixed assets are not reported in this fund financial statement but they are presented in the statement of net activities.	(5,022)
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>(315,155)</u>
Change in net assets of governmental activities	<u>\$ 1,286,262</u>

SPENCER COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS--PROPRIETARY FUNDS

Year ended June 30, 2005

	<u>Food Service Fund</u>	<u>Day Care Fund</u>	<u>Total Proprietary Funds</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 180,599	\$ -	\$ 180,599
Inventory	23,867	-	23,867
Accounts receivable:			
Intergovernmental - Indirect Federal	26,975	-	26,975
Intergovernmental - State	<u>-</u>	<u>6,290</u>	<u>6,290</u>
Total current assets	231,441	6,290	237,731
Non-current Assets			
Capital assets	330,873	-	330,873
Less accumulated depreciation	<u>(211,771)</u>	<u>-</u>	<u>(211,771)</u>
Total non-current assets	<u>119,102</u>	<u>-</u>	<u>119,102</u>
Total assets	<u>\$ 350,543</u>	<u>\$ 6,290</u>	<u>\$ 356,833</u>
LIABILITIES AND NET ASSETS			
Current Liabilities			
Book overdraft	\$ -	\$ 5,716	\$ 5,716
Accounts payable	<u>17,987</u>	<u>-</u>	<u>17,987</u>
Total current liabilities	17,987	5,716	23,703
Net Assets			
Invested in capital assets, net of related debt	117,306	-	117,306
Unrestricted	<u>215,250</u>	<u>574</u>	<u>215,824</u>
Total net assets	<u>332,556</u>	<u>574</u>	<u>333,130</u>
Total liabilities and net assets	<u>\$ 350,543</u>	<u>\$ 6,290</u>	<u>\$ 356,833</u>

See independent auditor's report and accompanying
notes to basic financial statements

SPENCER COUNTY SCHOOL DISTRICT**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS--PROPRIETARY FUNDS**

Year ended June 30, 2005

	<u>Food Service Fund</u>	<u>Day Care Fund</u>	<u>Total Proprietary Funds</u>
Operating Revenues			
Lunchroom sales	\$ 560,321	\$ -	\$ 560,321
Day care fees	<u>-</u>	<u>104,050</u>	<u>104,050</u>
Total operating revenues	560,321	104,050	664,371
Operating Expenses			
Salaries and wages	381,489	113,690	495,179
Materials and supplies	577,184	4,789	581,973
Depreciation	20,227	-	20,227
Other operating expenses	<u>55,280</u>	<u>6,364</u>	<u>61,644</u>
Total operating expenses	<u>1,034,180</u>	<u>124,843</u>	<u>1,159,023</u>
Operating loss	(473,859)	(20,793)	(494,652)
Non-Operating Revenues			
Federal grants	419,694	-	419,694
Donated commodities	45,387	-	45,387
Contributions	-	1,847	1,847
State grants	47,872	-	47,872
Interest income	5,310	-	5,310
Operating transfer-in	<u>-</u>	<u>14,434</u>	<u>14,434</u>
Total non-operating revenues	<u>518,263</u>	<u>16,281</u>	<u>534,544</u>
Excess (deficit) revenues over expense	44,404	(4,512)	39,892
Total net assets, beginning of year	<u>288,152</u>	<u>5,086</u>	<u>293,238</u>
Total net assets, end of year	<u>\$ 332,556</u>	<u>\$ 574</u>	<u>\$ 333,130</u>

See independent auditor's report and accompanying
notes to basic financial statements

SPENCER COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS--PROPRIETARY FUNDS

Year ended June 30, 2005

Cash Flows from Operating Activities

Cash received from:

Lunchroom sales

\$ 568,359

Day care fees

102,846

Cash paid to/for:

Employees

(495,179)

Supplies

(525,809)

Other activities

(61,644)

Net cash used in operating activities

(411,427)

Cash Flows from Investing Activities

Receipt of interest income

5,310

Purchase of fixed assets

(1,797)

Net cash provided by investing activities

3,513

Cash Flows from Non-Capital and Related Financing Activities

Book overdraft

5,716

Federal grants

419,694

State grants

47,872

Contributions

1,847

Interfund transfers

14,434

Net cash provided by non-capital and related financing activities

489,563

Net increase in cash and cash equivalents

81,649

Balances, Beginning of Year

98,950

Balances, End of Year

\$ 180,599

Reconciliation of operating loss to net cash used in operating activities

Operating loss

\$ (494,652)

Adjustments to reconcile operating loss to net cash used

in operating activities:

Depreciation

20,227

Donated commodities

45,387

Change in assets and liabilities:

Inventory

354

Receivables

6,834

Accounts payable

10,423

Net cash used in operating activities

\$ (411,427)

Schedule of Non-Cash Transactions

Donated commodities received from federal government

\$ 45,387

See independent auditor's report and accompanying
notes to basic financial statements

SPENCER COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS--FIDUCIARY FUND

June 30, 2005

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	<u>\$ 254,365</u>
Liabilities	
Due to student groups	<u>\$ 254,365</u>

See independent auditor's report and accompanying
notes to basic financial statements

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2005

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Spencer County Board of Education (Board), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Spencer County School District (District). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies, which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Spencer County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Spencer County Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Spencer County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the Corporation) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Continued

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2005

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements -- Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total net assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on page 42. This is a major fund of the District.
- (C) The Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by a Proprietary Fund).

Continued

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2005

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan. This is a non-major fund of the District.
 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a non-major fund of the District.
 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- (D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a non-major fund of the District.

II. Proprietary Fund Types (Enterprise Fund)

- (A) The Food Service and Summer Feeding Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. This is a major fund of the District.
- (B) The Day Care Fund is used to account for day care revenues. This is a non-major fund of the District.

The District applies all Governmental Accounting Standards Board (GASB) pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency Funds)

- (A) The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Continued

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2005

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

Continued

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2005

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

The property tax rates assessed for the year ended June 30, 2005 were \$.530 per \$100 valuation for real property, \$.530 per \$100 valuation for business personal property and \$.560 per \$100 valuation for motor vehicles.

The District levies a 3.0% utility tax on all businesses and households within the District.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of technology purchases and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Continued

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2005

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting – The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Budgetary amendments are made during the year to reflect new revenue sources and the receipt of the District's growth calculation.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash, Equivalents and Investments

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

GASB 31 requires investments to be carried at fair value with unrealized changes being recorded in the statements of revenues, expenditures and changes in fund balance. The District invests in Fixed Income Government Issues, whose cost approximates fair value.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2005

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2005 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Inventories

Inventory is stated at cost using the specific identification method.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, capital leases, accumulated sick leave, and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2005

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B--ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances and disclosure of contingent assets and liabilities at the date of the general purpose financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C--CASH, EQUIVALENTS AND INVESTMENTS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's bank balances are covered by Federal Depository Insurance up to \$100,000 per financial institution, with the remainder covered by collateral agreements and collateral held by the pledging banks trust department in the District's name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

Cash and cash equivalents at June 30, 2005 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Peoples Bank	<u>\$ 5,297,386</u>	<u>\$ 4,790,594</u>
Breakdown per financial statements:		
Governmental funds	\$ 4,355,630	
Proprietary funds	180,599	
Agency funds	<u>254,365</u>	
	<u>\$ 4,790,594</u>	

SPENCER COUNTY SCHOOL DISTRICT**NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED**

June 30, 2005

NOTE C—CASH, EQUIVALENTS AND INVESTMENTS—CONTINUED

As of June 30, 2005 the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
Cash and equivalents	\$ 1,035,777	2005
Fixed income government issues	<u>976,660</u>	2005
Total	<u>\$ 2,012,437</u>	

NOTE D--CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2005</u>
Land	\$ 316,383	\$ -	\$ -	\$ 316,383
Buildings and improvements	12,460,793	68,417	-	12,529,210
Technology equipment	944,366	118,470	61,192	1,001,644
Rolling stock	21,240	-	-	21,240
Audio-visual equipment	42,714	-	-	42,714
Other general equipment	61,640	-	-	61,640
Vehicles	1,474,752	33,850	45,698	1,462,904
Construction in process	<u>865,052</u>	<u>10,668,397</u>	<u>-</u>	<u>11,533,449</u>
Totals at historical cost	<u>16,186,940</u>	<u>10,889,134</u>	<u>106,890</u>	<u>26,969,184</u>
Less: accumulated depreciation				
Buildings and improvements	\$ 3,238,548	\$ 248,090	\$ -	\$ 3,486,638
Technology equipment	632,003	119,127	61,012	690,118
Rolling stock	16,257	725	-	16,982
Audio-visual equipment	12,323	3,188	-	15,511
Other general equipment	40,405	3,565	-	43,970
Vehicles	<u>889,928</u>	<u>106,823</u>	<u>40,856</u>	<u>955,895</u>
Total accumulated depreciation	<u>4,829,464</u>	<u>481,518</u>	<u>101,868</u>	<u>5,209,114</u>
Depreciable Capital Assets – Net	10,176,041	(260,781)	5,022	9,910,238
Non-depreciable Capital Assets	<u>1,181,435</u>	<u>10,668,397</u>	<u>-</u>	<u>11,849,832</u>
Total	<u>\$11,357,476</u>	<u>\$10,407,616</u>	<u>\$ 5,022</u>	<u>\$ 21,760,070</u>

Continued

SPENCER COUNTY SCHOOL DISTRICT**NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED**

June 30, 2005

NOTE D--CAPITAL ASSETS--CONTINUED

<u>Business-Type Activities</u>	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2005</u>
Food service and equipment	\$ 313,825	\$ -	\$ -	\$ 313,825
Technology equipment	<u>15,251</u>	<u>1,797</u>	<u>-</u>	<u>17,048</u>
Totals at historical cost	<u>329,076</u>	<u>1,797</u>	<u>-</u>	<u>330,873</u>
Less accumulated depreciation				
Food service equipment	180,585	18,695	-	199,280
Technology equipment	<u>10,959</u>	<u>1,532</u>	<u>-</u>	<u>12,491</u>
Total accumulated depreciation	<u>191,544</u>	<u>20,227</u>	<u>-</u>	<u>211,771</u>
Business-Type Activities:				
Depreciable Capital Assets-Net	<u>\$ 137,532</u>	<u>\$ (18,430)</u>	<u>\$ -</u>	<u>\$ 119,102</u>

Depreciation was charged to governmental functions as follows:

Instruction	\$ 332,960
Student support	2,970
Instructional staff	9,602
District administration	23,832
School administration	3,301
Plant operation and maintenance	1,962
Student transportation	106,397
Central office	<u>494</u>
	<u>\$ 481,518</u>

NOTE E--BONDED DEBT AND LEASE OBLIGATIONS

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Interest Rates</u>
2004	\$13,860,000	3.00% - 5.00%
2003	\$ 830,000	1.50% - 3.50%
1999	\$ 9,105,000	4.40% - 4.50%
1996	\$ 855,000	4.00% - 5.00%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Spencer County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

Continued

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2005

NOTE E--BONDED DEBT AND LEASE OBLIGATIONS--CONTINUED

The District has entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2005 for debt service (principal and interest) are as follows:

Year	Spencer County School District		Kentucky School Construction Commission		Total
	Principal	Interest	Principal	Interest	
2005-2006	637,462	872,257	227,538	144,766	1,882,023
2006-2007	558,743	848,833	336,257	136,045	1,879,878
2007-2008	684,674	824,386	245,326	127,117	1,881,503
2008-2009	710,003	798,142	249,997	117,646	1,875,788
2009-2010	736,229	770,106	223,771	107,797	1,837,903
2010-2011	770,793	739,111	224,207	99,093	1,833,204
2011-2012	800,611	706,129	224,389	90,359	1,821,488
2012-2013	835,685	671,835	229,315	81,373	1,818,208
2013-2014	870,350	635,693	239,650	72,456	1,818,149
2014-2015	909,907	597,602	185,093	62,917	1,755,519
2015-2016	949,524	556,706	185,476	52,242	1,743,948
2016-2017	994,475	513,366	195,525	43,872	1,747,238
2017-2018	1,038,712	467,901	201,288	34,993	1,742,894
2018-2019	1,091,346	418,780	213,654	25,721	1,749,501
2019-2020	1,145,817	360,943	54,183	15,782	1,576,725
2020-2021	1,203,043	304,446	56,957	13,004	1,577,450
2021-2022	1,250,122	235,417	59,878	10,083	1,555,500
2022-2023	1,307,052	171,488	62,948	7,012	1,548,500
2023-2024	1,373,823	104,466	66,177	3,784	1,548,250
2024-2025	1,402,407	-	42,593	36,125	1,481,125
	<u>\$ 19,270,778</u>	<u>\$ 10,597,607</u>	<u>\$ 3,524,222</u>	<u>\$ 1,282,187</u>	<u>\$ 34,674,794</u>

SPENCER COUNTY SCHOOL DISTRICT**NOTES TO FINANCIAL STATEMENTS--CONTINUED**

June 30, 2005

NOTE F--CAPITAL LEASE PAYABLE

The following is an analysis of the leased property under capital lease by class:

<u>Classes of Property</u>	<u>Book Value as of June 30, 2005</u>
Buses	\$ 159,072
Technology	59,500
Buildings and improvements	8,600

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2005:

<u>Year Ending June 30</u>	<u>Capital Lease Payable</u>
2006	\$ 40,020
2007	36,611
2008	31,521
2009	31,598
2010 and beyond	<u>129,302</u>
	269,052
Less: Amount representing interest	<u>41,880</u>
Present value of net minimum lease payments	227,172
Current portion	<u>30,765</u>
Non-current portion	<u>\$ 196,407</u>

NOTE G--COMMITMENTSLeases

The following is a schedule by years of future minimum rental payments required under operating leases for office equipment that have initial non-cancelable lease terms in excess of one year as of June 30, 2005:

<u>Year Ending June 30</u>	
2006	\$ 20,448
2007	14,958
2008	<u>3,218</u>
Total minimum payments	<u>\$ 38,624</u>

Rent expense for the year ended June 30, 2005 was \$32,648.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2005

NOTE G--COMMITMENTS--CONTINUED

Other

During the year ended June 30, 2004, the District entered into a construction contract to build a new middle school. Construction on this project began in June 2004 and is expected to be completed in November 2005. The total contract amount is \$15,111,951.

NOTE H--RETIREMENT PLANS

Certified employees are covered under the Kentucky Teachers Retirement System (KTRS). Funding for the Plan is provided through payroll withholdings of 9.855% and matching state contributions. The matching contributions are paid by the Federal programs for any salaries paid by that program at 13.105%.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, and public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% and a Board contribution of 8.48% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was approximately \$10,304,000. The payroll for employees covered under KTRS was approximately \$7,422,000 and for CERS was approximately \$2,671,000.

The contribution requirement for CERS for the year ended June 30, 2005 was \$360,090, which consisted of \$226,519 from the Board and \$133,571 from the employees.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2005

NOTE H--RETIREMENT PLANS--CONTINUED

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

	KTRS <u>June 30, 2004</u>	CERS <u>June 30, 2004</u>
Assets available for benefits, at fair value	\$ 14,255,131,000	\$ 5,187,851,530
Pension benefit obligation	<u>(17,617,626,000)</u>	<u>(4,936,459,488)</u>
	<u>\$ (3,362,495,000)</u>	<u>\$ 251,392,042</u>

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2004 comprehensive annual financial reports.

As the District is only one of several employers participating in the Plan, it is not practicable to determine the District's portion of the unfunded past service cost or the vested benefits of the District's portion of the Plan assets.

The District also offers employees the option to participate in a defined contribution plan under Section 403(b), 401(k) and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowed by law. The District does not contribute to these plans.

NOTE I--CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

The Spencer County School District is also subject to other legal proceedings and claims that have risen in the ordinary course of its business and have not been finally adjudicated. Although there can be no assurance as to the ultimate disposition of these matters and the proceedings disclosed above, it is the opinion of the school district's management based upon the information available at this time, that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the results of operations and financial condition of the Spencer County School District.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2005

NOTE J--INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies that are retrospectively rated which include Workers' Compensation insurance.

NOTE K--RISK MANAGEMENT

The District is exposed to various risk of loss related to injuries to employees. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky Educational Development Corporation. The District pays an annual premium to the fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notices. In the event the Trust terminates coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Board's Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE L--DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Special Revenue Fund	\$ (42,210)
Construction Fund	(10,661,832)
Debt Service Fund	(1,280,597)
Day Care Fund	(4,512)

NOTE M--COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).

SPENCER COUNTY SCHOOL DISTRICT**NOTES TO FINANCIAL STATEMENTS--CONTINUED**

June 30, 2005

NOTE N--TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Matching	\$ 52,210
Debt Service	SEEK	Debt Service	Debt Service	194,030
Debt Service	FSPK	Debt Service	Debt Service	1,617,660
Operating	Debt Service	FSPK	Construction	64,117
Operating	General	Day Care	Operations	14,434
Operating	Special Revenue	General	Operations	10,000

NOTE O--ON-BEHALF PAYMENTS

For the year ended June 30, 2005 total payments of \$2,133,770 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of activities. These revenues and expenditures are not budgeted by the District.

SUPPLEMENTARY INFORMATION

SPENCER COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-- BUDGETARY COMPARISON SCHEDULE--GENERAL FUND

Year ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources				
Taxes				
Property	\$ 1,793,478	\$ 2,295,846	\$ 2,383,634	\$ 87,788
Motor vehicle	443,579	485,000	505,154	20,154
Utilities	410,404	425,700	499,761	74,061
Transportation fees	-	53,000	63,568	10,568
Earnings on investments	49,625	40,000	128,517	88,517
Other local revenues	117,981	35,000	62,110	27,110
Intergovernmental -- state	6,832,947	7,518,768	9,703,873	2,185,105
Intergovernmental -- direct federal	762	2,000	2,310	310
Loss compensation	8,063	-	-	-
Total revenues	<u>9,656,839</u>	<u>10,855,314</u>	<u>13,348,927</u>	<u>2,493,613</u>
Expenditures				
Instruction	6,251,369	6,582,005	8,257,516	(1,675,511)
Support services:				
Student	278,902	261,466	334,452	(72,986)
Instruction staff	223,086	244,914	235,626	9,288
District administrative	628,279	449,483	456,817	(7,334)
School administrative	597,803	666,967	704,300	(37,333)
Business	253,351	399,371	404,606	(5,235)
Plant operation and maintenance	927,050	1,047,863	1,109,317	(61,454)
Enterprise operation	-	-	12,334	(12,334)
Student transportation	847,289	1,022,654	1,152,276	(129,622)
Community service activities	-	-	9,865	(9,865)
Adult education operations	-	-	4,284	(4,284)
Other	-	879,173	24,059	855,114
Total expenditures	<u>10,007,129</u>	<u>11,553,896</u>	<u>12,705,452</u>	<u>(1,151,556)</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(350,290)</u>	<u>(698,582)</u>	<u>643,475</u>	<u>1,342,057</u>
Other Financing Sources (Uses)				
Proceeds from sale of fixed assets	-	-	5	5
Operating transfers in	-	-	10,000	10,000
Operating transfers out	(50,000)	(46,850)	(66,643)	(19,793)
Insurance proceeds	-	-	933	933
Total other financing uses	<u>(50,000)</u>	<u>(46,850)</u>	<u>(55,705)</u>	<u>(8,855)</u>
Net change in fund balance	<u>(400,290)</u>	<u>(745,432)</u>	<u>587,770</u>	<u>1,333,202</u>
Fund balances, beginning of year	<u>1,118,860</u>	<u>745,432</u>	<u>891,040</u>	<u>145,608</u>
Fund balances, end of year	<u>\$ 718,570</u>	<u>\$ -</u>	<u>\$ 1,478,810</u>	<u>\$ 1,478,810</u>

See independent auditor's report and accompanying
notes to basic financial statements

SPENCER COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-- BUDGETARY COMPARISON SCHEDULE--SPECIAL REVENUE FUND

Year ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources				
Other local revenues	\$ 739	\$ 29,298	\$ 36,525	\$ 7,227
Intergovernmental – state	1,140,427	985,257	970,578	(14,679)
Intergovernmental – indirect federal	1,063,931	1,261,173	1,208,111	(53,062)
Total revenues	2,205,097	2,275,728	2,215,214	(60,514)
Expenditures				
Instruction	1,587,271	1,286,851	1,425,145	(138,294)
Support services:				
Student	300,177	152,314	172,324	(20,010)
Instruction staff	175,483	488,140	421,533	66,607
School administrative	8,459	43,147	23,914	19,233
Student transportation	86,227	133,272	113,608	19,664
Enterprise operation	-	2,950	1,368	1,582
Community service activities	97,480	100,459	99,532	927
Total expenditures	2,255,097	2,207,133	2,257,424	(50,291)
Excess (Deficit) of Revenues Over Expenditures	(50,000)	68,595	(42,210)	(110,805)
Other Financing Sources (Uses)				
Operating transfers in	50,000	47,348	52,210	4,862
Operating transfers out	-	-	(10,000)	(10,000)
Total other financing sources	-	-	42,210	(5,138)
Net change in fund balance	-	115,943	-	(115,943)
Fund balances, beginning of year	-	79,237	-	79,237
Fund balances, end of year	\$ -	\$ 195,180	\$ -	\$ (36,706)

See independent auditor's report and accompanying
notes to basic financial statements

SPENCER COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET--NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2005

	<u>SEEK Capital Outlay Fund</u>	<u>FSPK Building Fund</u>	<u>Debt Service</u>	<u>Total Non-Major Governmental Funds</u>
ASSETS AND RESOURCES				
Assets and Resources				
Cash and cash equivalents	<u>\$ 21,500</u>	<u>\$ 756,735</u>	<u>\$ 748,666</u>	<u>\$ 1,526,901</u>
Total assets and resources	<u>\$ 21,500</u>	<u>\$ 756,735</u>	<u>\$ 748,666</u>	<u>\$ 1,526,901</u>
 FUND BALANCES				
Fund Balances				
Reserved for				
KSFCC escrow	\$ -	\$ 692,618	\$ -	\$ 692,618
Reserve for construction		64,117		64,117
Encumbrances	21,500	-	-	21,500
Debt service funds	<u>-</u>	<u>-</u>	<u>748,666</u>	<u>748,666</u>
Total fund balances	<u>\$ 21,500</u>	<u>\$ 756,735</u>	<u>\$ 748,666</u>	<u>\$ 1,526,901</u>

See independent auditor's report

SPENCER COUNTY SCHOOL DISTRICT

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES--NON-MAJOR GOVERNMENTAL FUNDS**

Year ended June 30, 2005

	SEEK Capital Outlay Fund	FSPK Building Fund	Debt Service	Total Non-Major Governmental Funds
Revenues				
Taxes				
Property	\$ -	\$ 1,134,370	\$ -	\$ 1,134,370
Earnings on investments	-	129	1,022	1,151
Intergovernmental – state	<u>215,530</u>	<u>508,914</u>	<u>327,192</u>	<u>1,051,636</u>
Total revenues	215,530	1,643,413	328,214	2,187,157
Expenditures				
Support services				
Plant operation and maintenance	13,000	-	-	13,000
Debt service:				
Principal	-	-	770,000	770,000
Interest	<u>-</u>	<u>-</u>	<u>838,811</u>	<u>838,811</u>
Total expenditures	<u>13,000</u>	<u>-</u>	<u>1,608,811</u>	<u>1,621,811</u>
Excess (Deficit) of Revenues Over Expenditures	202,530	1,643,413	(1,280,597)	565,346
Other Financing (Uses) Sources				
Proceeds from sale of bonds	-	-	-	-
Bond discount expense	-	-	-	-
Payment to bond escrow agent	-	-	-	-
Operating transfers in	-	64,117	1,811,690	1,875,807
Operating transfers out	<u>(194,030)</u>	<u>(1,617,660)</u>	<u>(64,117)</u>	<u>(1,875,807)</u>
Total other financing (uses) sources	<u>(194,030)</u>	<u>(1,553,543)</u>	<u>1,747,573</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Sources	8,500	89,870	466,976	565,346
Fund balances, beginning of year	<u>13,000</u>	<u>666,865</u>	<u>281,690</u>	<u>961,555</u>
Fund balances, end of year	<u>\$ 21,500</u>	<u>\$ 756,735</u>	<u>\$ 748,666</u>	<u>\$ 1,526,901</u>

See independent auditor's report and accompanying
notes to basic financial statements

SPENCER COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE--ACTIVITY FUNDS

Year ended June 30, 2005

	<u>High School</u>	<u>Middle School</u>	<u>Elementary School</u>	<u>Total</u>
Assets				
Cash	<u>\$ 117,079</u>	<u>\$ 46,343</u>	<u>\$ 90,943</u>	<u>\$ 254,365</u>
 Liabilities				
Due to student groups	<u>\$ 117,079</u>	<u>\$ 46,343</u>	<u>\$ 90,943</u>	<u>\$ 254,365</u>

See independent auditor's report and accompanying
notes to basic financial statements

SPENCER COUNTY SCHOOL DISTRICT

SPENCER COUNTY HIGH SCHOOL ACTIVITY FUND

Year ended June 30, 2005

	Due to Student Groups June 30, 2004	Revenues	Expenditures	Interfund Transfers	Fund Balance June 30, 2005	Accounts Receivable June 30, 2005	Accounts Payable June 30, 2005	Due to Student Groups June 30, 2005
Equipment	\$ 67	\$ -	\$ 67	\$ -	\$ -	\$ -	\$ -	\$ -
Staff Development	82	165	247	-	-	-	-	-
Fees/Dues	23,253	38,530	2,983	(37,659)	21,141	-	-	21,141
Teaching Supplies	36	-	36	-	-	-	-	-
Textbooks	15,497	22,973	15,210	-	23,260	-	-	23,260
Visual Performing Arts	716	56	511	703	964	-	-	964
Arts & Humanities	-	10	357	360	13	-	-	13
Art - D	181	488	1,916	1,784	537	-	-	537
Art - W	30	-	957	1,270	343	-	-	343
Band	180	4,221	4,918	958	441	-	-	441
Band Boosters	98	-	-	(98)	-	-	-	-
Business	99	315	2,885	3,140	669	-	-	669
FBLA	-	26,562	25,921	300	941	-	-	941
Career & Technical	-	-	90	90	-	-	-	-
Chorus	85	17,458	18,019	768	292	-	-	292
Computer Technology	55	2,020	-	315	2,390	-	-	2,390
Drama	106	1,093	801	172	570	-	-	570
ECE	197	-	274	360	283	-	-	283
Family Con Science	366	-	1,251	1,133	248	-	-	248
Child Care Services	-	1,336	1,001	(250)	85	-	-	85
FCCLA	802	20,252	21,165	1,903	1,792	-	-	1,792
FCCLA - Region 6	-	838	-	-	838	-	-	838
German	-	-	120	180	60	-	-	60
Gifted and Talented	-	-	-	-	-	-	-	-
National History Day	-	840	840	-	-	-	-	-
Career Technology	-	-	2,968	3,035	67	-	-	67
TSA	-	4,203	3,895	(302)	6	-	-	6
I Classes	-	-	-	595	595	-	-	595
Journalism	-	-	-	300	300	-	-	300
Language	523	1,657	5,431	4,194	943	-	-	943
Latin	-	-	100	310	210	-	-	210
Mathematics	-	185	1,882	2,225	528	-	-	528
Math Plus	-	-	-	-	-	-	-	-
Media	223	602	714	627	738	-	-	738
Newspaper/Magazine	294	-	-	-	294	-	-	294
PE & Health	84	2,650	1,940	1,736	2,530	-	-	2,530
Reading	-	-	134	138	4	-	-	4
Science	380	469	5,686	4,845	8	-	-	8
Science AP	197	-	-	(197)	-	-	-	-
Signing	-	-	-	230	230	-	-	230
Social Studies	80	600	2,468	2,348	560	-	-	560
Spanish	-	-	-	665	665	-	-	665
KYA	-	-	-	-	-	-	-	-
Career Ag.	820	7,196	12,682	11,655	6,989	-	-	6,989
F.F.A.	11,618	70,282	77,432	4,204	8,672	-	-	8,672
F.F.A. - CD Investments	8,469	87	-	(8,556)	-	-	-	-
Greenhouse	6,730	9,347	7,122	(2,973)	5,982	-	-	5,982
Yearbook	7,364	8,179	11,249	791	5,085	-	-	5,085
Library Club	668	935	812	(40)	751	-	-	751
Future Educators Assoc.	1,109	62	25	-	1,146	-	-	1,146
National Honor Society	458	457	659	(20)	236	-	-	236
Spanish Club	315	1,014	1,196	30	163	-	-	163
Student Council	163	416	492	-	87	-	-	87
Academic Team	548	3,796	2,831	(20)	1,493	-	-	1,493
Science Club	-	-	-	-	-	-	-	-
Bookstore	94	-	-	-	94	-	-	94
Pepsi (Students)	593	6,196	5,351	(400)	1,038	-	-	1,038
Pepsi (Faculty)	416	1,433	1,229	(200)	420	-	-	420

SPENCER COUNTY SCHOOL DISTRICT

SPENCER COUNTY HIGH SCHOOL ACTIVITY FUND--CONTINUED

Year ended June 30, 2005

	Due to Student Groups June 30, 2003	Revenues	Expenditures	Interfund Transfers	Fund Balance June 30, 2005	Accounts Receivable June 30, 2005	Payable June 30, 2005	Due to Student Groups June 30, 2005
Copier (Library)	\$ 356	\$ 374	\$ 473	\$ -	\$ 257	\$ -	\$ -	\$ 257
Hospitality	62	(55)	-	-	7	-	-	7
Snacks Student	2,156	124	400	(1,662)	218	-	-	218
Snacks Faculty	185	41	-	-	226	-	-	226
Administration	514	7,274	6,195	(61)	1,532	-	-	1,532
General	87	462	592	46	3	-	-	3
Principal's Fund	8,354	1,218	240	(791)	8,541	-	-	8,541
Guidance	395	2,575	2,933	-	37	-	-	37
Fund for the Arts	-	-	-	-	-	-	-	-
Project Graduation	2,543	16,893	21,255	2,100	281	-	-	281
PTSO	66	-	-	-	66	-	-	66
Memorial Fund	3,188	180	3,050	-	318	-	-	318
Senior Class	1,326	19,559	16,938	(3,397)	550	-	-	550
Senior Trip	-	20	-	(20)	-	-	-	-
Junior Class	-	7,861	7,308	175	728	-	-	728
Sophomore Class	181	1,286	1,039	157	585	-	-	585
Freshman Class	338	-	-	(338)	-	-	-	-
Fellow of Christian	434	40	232	-	242	-	-	242
Athletics	-	18,051	26,615	8,660	96	-	-	96
Bingo	-	8,781	8,981	200	-	-	-	-
Concessions	5,589	16,672	14,481	(7,700)	80	-	-	80
Baseball	1,935	29,170	29,820	1,317	2,602	-	-	2,602
Basketball - Boys	1,330	10,566	10,105	50	1,841	-	-	1,841
Basketball - Girls	3,282	12,581	13,580	(170)	2,113	-	-	2,113
Cheerleaders	1,597	6,285	7,199	-	683	-	-	683
Cross Country	763	-	316	-	447	-	-	447
Golf - Boys	109	1,291	1,417	17	-	-	-	-
Golf - Girls	258	191	449	-	-	-	-	-
Soccer - Boys	478	-	509	31	-	-	-	-
Soccer - Girls	479	3,616	3,931	(31)	133	-	-	133
Softball	-	13,657	13,197	20	480	-	-	480
Tennis - Boys	88	-	-	-	88	-	-	88
Tennis - Girls	181	-	-	-	181	-	-	181
Volleyball	-	2,262	2,163	(99)	-	-	-	-
Football	5,481	13,146	23,365	4,747	9	-	-	9
Football Coach	-	8,309	4,375	(3,900)	34	-	-	34
Total	\$ 124,751	\$ 459,353	\$ 467,025	\$ -	\$ 117,079	-	-	\$ 117,079

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SPENCER COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2005

<u>Federal Grantor Passed-through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program Or Award Amount</u>	<u>Expenditures</u>
U.S. Department of Agriculture				
Passed-Through KY Department of Education				
National School Lunch Program	10.555	0575-04-02	N/A	\$ 75,396
National School Lunch Program	10.555	0575-05-02	N/A	240,370
National School Breakfast Program	10.553	0576-04-05	N/A	16,117
National School Breakfast Program	10.553	0576-05-05	N/A	60,836
Passed-Through KY Department of Agriculture				
Food Distribution (In-kind Commodities)	10.550	N/A	N/A	45,387
Total U.S. Department of Agriculture				<u>\$ 438,106</u>
U.S. Department of Education				
Passed-Through KY Department of Education				
Title I--FY 2004	84.010	0351-04-01	\$ 267,129	\$ 56,511
Title I--FY 2005	84.010	0351-05-01	285,663	218,334
Title I--School Improvement FY 2005	84.010	0351-05-11	72,712	7,714
Migrant--FY 2004	84.011	0352-04-01	71,746	25,015
Migrant--Chapter I FY 2005	84.011	0352-05-01	71,746	52,063
Migrant--Spencer Co. FY 2004	84.011A	0352-04-01	17,596	6,151
Migrant--Spencer Co. FY 2005	84.011	0352-05-01	12,204	6,738
Migrant--Washington Co. FY 2005	84.011	0352-05-01	31,414	26,802
Migrant--Shelby Co. FY 2005	84.011	0352-05-01	85,428	58,191
Title V (A) NCLB Innovative Program 2004	84.298	0553-04-02	14,408	11,373
Title V (A) NCLB Innovative Program 2005	84.298	0553-05-02	11,356	7,671
Idea Basic--FY 2004	84.027	0581-04-02	365,968	68,818
Idea Basic--FY 2005	84.027	0581-05-02	422,958	338,184
Idea Basic Preschool--FY 2004	84.173	0587-04-02	44,289	41,781
Idea Basic Preschool--FY 2005	84.173	0587-05-02	44,442	21,627
Perkins Title 1 Carryforward--FY 2005	84.048	0462-05-32	728	728
Vocational Education Title IC--FY 2005	84.048	0462-05-32	18,313	18,313
Tech-Prep Education--FY 2005	84.243	5463-05-02	18,000	18,000
Adult Ed--Development Funds--FY 2005	84.002	0535-05-02	5,130	5,130
Adult Education--FY 2005	84.002	0535-05-02	63,447	59,901
Community Based Work Transition--FY 2005	84.126	H126A-05-0023	24,950	24,339
Title II (A) Teacher & Prin. Training--FY 2004	84.367	0710-04-02	96,157	26,493
Title II (A) Teacher & Prin. Training--FY 2005	84.367	0710-05-02	97,687	88,439
Title IV--Drugs and Alcohol--FY 2004	84.186	0590-04-02	11,847	1,285
Title IV--Drugs and Alcohol--FY 2005	84.186	0590-05-02	10,820	10,820
Title II (D) NCLB Technology--FY 2004	84.318	0736-04-02	7,729	3,254
Title II (D) NCLB Technology--FY 2005	84.318	0736-05-02	7,178	2,174
Child Care Dev. Block Grant--FY 2005	93.575	N/A	2,950	1,368
Total U.S. Department of Education				<u>\$ 1,207,217</u>
Total Federal Financial Assistance				<u>\$ 1,645,323</u>

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2005

NOTE A--BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Spencer County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

NOTE B--FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Spencer County School District
Taylorsville, Kentucky

We have audited the financial statements of the Spencer County School District as of and for the year ended June 30, 2005, and have issued our report thereon dated September 2, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Spencer County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Spencer County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over the financial reporting that we have reported to management in a separate letter dated September 2, 2005.

This report is intended for the information of the Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Mountjoy & Bressler, LLP

Louisville, Kentucky
September 2, 2005

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Spencer County Board of Education
Taylorsville, Kentucky

Compliance

We have audited the compliance of Spencer County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Spencer County School District's major federal programs are identified in the accompanying schedule of expenditures of federal awards. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Spencer County School District's management. Our responsibility is to express an opinion on Spencer County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Spencer County School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Spencer County School District's compliance with those requirements.

In our opinion, Spencer County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Spencer County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Spencer County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

This report is intended for the information of the Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Mountjoy & Bresler, LLP

Louisville, Kentucky
September 2, 2005

SCHEDULE OF CURRENT YEAR AUDIT FINDINGS

SPENCER COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued (unqualified): Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____yes X no
- Reportable condition(s) identified
that are not considered to be material
weaknesses? _____yes X none reported

Noncompliance material to financial
statements noted? _____yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____yes X no
- Reportable condition(s) identified
that are not considered to be material
weakness(es)? _____yes X none reported

Type of auditor's report issued on compliance for major programs (unqualified):

Any audit findings disclosed that are
required to be reported in accordance
with section 510(a) of Circular A-133? _____yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.555, 10.553, 10.550 84.027	Food Distribution Program IDEA Basic

Dollar threshold used to distinguish
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes _____no

Section II - Financial Statement of Findings

No matters were reported

Section III - Federal Award Findings and Questioned Costs

No matters were reported

SPENCER COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2005

The prior year's audit disclosed no findings which are required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

MANAGEMENT LETTER COMMENTS

MANAGEMENT LETTER

Members of the Board of Education of
Spencer County School District
Taylorsville, Kentucky

In planning and performing our audit of the financial statements of Spencer County School District for the year ended June 30, 2005, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated September 2, 2005, contains our report on the District's internal control structure. This letter does not affect our report dated September 2, 2005, on the financial statements of the Spencer County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

Mountjoy & Bressler, LLP

Mountjoy & Bressler, LLP
Louisville, Kentucky
September 2, 2005

SPENCER COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

For the year ended June 30, 2005

Activity Funds - Segregation of Duties

As noted in prior years, segregation of duties at all of the schools is not being fully utilized. Internal controls are designed to safeguard assets and help to detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. According to the "Accounting Procedures for Kentucky School Activity Funds" (Redbook) distributed by the Kentucky Department of Education, the following are suggested ways to segregate duties:

Handling Receipts:

- Someone other than the bookkeeper or principal should perform the following duties:
 - Opens the mail with the exception of the bank statements.
 - Records the checks by payee in chronological order.
 - Receives cash and writes pre-numbered receipt for cash to payee.
- The bookkeeper should perform the following duties:
 - Photocopy the checks.
 - Record receipts on a deposit ticket.
- The principal should perform the following duties:
 - Reconcile the listing of checks by payee to the deposit ticket.
 - Deposits checks and cash.

Paying Bills:

- The principal should approve invoices.
- Someone other than the bookkeeper and principal should match the invoices to the checks and mail the checks.

Preparing Bank Reconciliation:

- The principal should perform the following duties:
 - Review canceled checks for appropriate signatures, inconsistent check numbers or abnormal transaction amounts.
 - Compare chronological listing of receipts to deposit slips to deposits on bank statement.
- Someone other than the bookkeeper or the principal should review the bank reconciliation.

We recommend that each school conduct an evaluation of their policies and procedures related to segregation of duties, compare the results to the suggestions in the Redbook and make any necessary adjustments.

Management Response

Management continues to stress the importance of internal controls with the school administration. Several changes have been made in procedures but it is important to note the limited staff available at each site. Redbook training is provided annually with mandatory attendance for all school bookkeepers, secretaries, principals and assistant principals. Management has asked the school administration and the SBDM councils to familiarize themselves with the monthly financial reports and review the income and expenditure detail.

Continued

SPENCER COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS--CONTINUED

For the year ended June 30, 2005

Activity Funds - Purchasing

Proper purchasing procedures were not being utilized in several instances. Some examples include, payment being rendered on purchases in which a purchase order was not approved prior to the purchase, vendor invoices that did not denote proper approval, vendor invoices that did not denote payment had been rendered and the absence of a supporting vendor or standard invoice. In addition, we noted that shipping tickets are not maintained in the invoice package, while this is not a requirement by Redbook it is a recommendation which has been made in the past. We recommend that the following Redbook procedures be performed:

- To initiate a purchase, a Purchase Order shall be prepared and approved by the sponsor and principal before the payment is obligated. The purchase order should also be dated.
- Shipping tickets for merchandise ordered shall be compared to the purchase order, initialed and dated by the receiver, and section B of the purchase order completed. We recommend that the shipping ticket be maintained with the purchase order and vendor invoice.
- The vendor invoice and/or the standard invoice must have the date of approval and signature of the principal and the faculty sponsor of the activity expending the monies before the payment process can be continued.
- The check number and date paid shall be noted on the invoice. The invoice shall be clearly marked "paid."

Management Response

Management will discuss the departures from Redbook procedures with building principals and bookkeepers and stress the expectations that Redbook procedures be adhered to.

The District does not have a central receiving department. Packages are shipped to the school site. Management will discuss receiving with the building principals and bookkeepers and establish a system that simplifies the receiving process.

Activity Funds - Fundraiser Bank Account

The Bingo Fund Raiser at Spencer County High School is maintained in a separate bank account. Checks are being written and authorized by the Bingo sponsors only and are not required to be signed by the Principal and bookkeeper. We recommend that a policy be implemented that all checks be signed by only the Principal and bookkeeper which is consistent with all other bank accounts.

Management Response

The State Gaming Commission requires a separate banking account for charitable gaming activities. The account was to require two signatures with the authorized signatories being the bookkeeper, principal and his designee. This issue was corrected within forty-eight hours (48) of its discovery.

Continued

SPENCER COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS--CONTINUED

For the year ended June 30, 2005

Activity Funds - Other

The Spencer County Middle School's beginning activity fund balances did not always agree to the prior year ending balance. This was the result of outstanding checks written off in the current year and added to the beginning balances. Outstanding checks that get written off should be taken into income during the year of the write off and should not be backdated. We recommend that the District finance officer perform at least one internal audit during the year for all schools to ensure the accuracy of the beginning balances, as well as the receipts and disbursements throughout the year. This will also ensure that all activities are being properly recorded.

Appropriate forms provided in the Redbook are not being properly utilized. Such forms include the Inventory Control worksheet from F-SA-5 and the Transfer Form F-SA-10. We recommend that each form be utilized in order for procedures to be in accordance with Redbook.

Management Response

The Middle School's discrepancies in balances were reviewed this year and corrected. The finance officer will perform an internal audit once a year with each of the schools

Redbook forms were presented and their use discussed at our Redbook training session held September 30, 2005. The forms will be utilized per the recommendation.

Single Audit - Lunch Program

Proper internal control procedures dictate that the proper approval should be noted before a purchase is made. We noted one instance in which the invoice did not have an approval signature. We recommend that the Food Operations Manager approve all invoices before payment is made.

Based on discussions with the Food Operations Manager, we became aware that locks are not installed on the cash register drawers at both Taylorsville Elementary School and Spencer County Elementary School. For the safeguarding of cash, we recommend locked cash drawers be installed at both school cafeterias.

Management Response

The District implemented an electronic purchase order process in July 2005. The District believes this process will help prevent purchases prior to approval. Invoices are compiled by the Food Operations Manager and presented to the Board for payment approval.

Management was not aware of the unlocked cash drawers at either school site. The recommendation for locked cash drawers will be implemented.

Disbursements - Payroll

Proper internal control procedures dictate that information relevant to the specified employee be maintained in their personnel files. Several instances were noted in which verification of the employee's pay rate was not maintained in their personnel files. We recommend that a checklist be created for employee data required by the state to be included in all personnel files. Each file should be reviewed and updated for completeness.

Continued

SPENCER COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS--CONTINUED

For the year ended June 30, 2005

Management Response

The District employed additional staff this year to organize and review the personnel files for completeness. A part time position in the personnel department has been established by the Board effective September 27, 2005. The employee's responsibilities will include the maintenance of employee files. A checklist will be established per the recommendation.

One instance was noted during testing in which an employee was issued a paycheck with no withholdings (i.e. payroll taxes and benefit deductions). We recommend that someone review payroll checks to ensure all withholdings and other deductions are appropriately withheld.

Management Response

Previously, payroll records were reviewed each pay period by the payroll administrator and randomly by the finance officer. The payroll administrator will continue to review the records each pay period and the finance officer will review all pay records as part of the monthly reconciliation process.

Disbursements - Operating

One instance was noted in which the expense code for which the invoice should be charged was not included on the invoice. We recommend documenting the proper expense code on each invoice to verify that the proper disbursement of funds is being made.

Management Response

Management believes this was an oversight and does not occur frequently. Management will bring this issue to the attention of the payables department.

Bidding procedures

It was noted that the Toshiba copier contract was not bid in accordance with KRS 424.260 and 702 KAR 3:135. The copier contracts are not handled district-wide, but rather they vary from school to school. Therefore, no bidding process was utilized for the copier contract. According to KRS 424.260 and 702 KAR 3:135, the Bid Law requires districts to advertise for sealed bids for any contract, lease or other agreement for materials; supplies except perishable meat, fish and vegetables; equipment; or for contractual services other than professional, involving an expenditure of more than \$20,000. The \$20,000 threshold applies to district wide purchases rather than individual schools and is deemed to apply to items, which can be purchased from the same vendor or can be grouped together by expenditure code such as teaching supplies. We recommend that a sealed bid be advertised for the Toshiba copier contract for all years continuing forward.

In addition it has been noted that Spencer County School buses do not have their own fuel point. They currently utilize a fuel point south of town. Productivity and profitability could be enhanced if the buses had their own fuel point and the District would be allowed to bid to surrounding areas, including Jefferson County. We recommend the District evaluate establishing their own fuel point for the school buses in the District.

Continued

SPENCER COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS--CONTINUED

For the year ended June 30, 2005

Management Response

Previously, copier contracts did not exceed the \$20,000 threshold. With the addition of new schools in our District and the increased cost of copiers, the District now meets the \$20,000 threshold for bidding. Management will review the current contracts and a sealed bid will be advertised for a district-wide copier contract per the recommendation.

The District did not own any land suitable for a fuel point prior to 2000. The Board purchased additional land when constructing the new elementary school with the intention of building a bus garage and fuel point when finances permit. Management has discussed the need for competition in the fuel bid and will pursue the recommendation.

Fixed/Capital Assets and Expenditures

Proper internal control procedures dictate that fixed asset estimated lives be periodically reconsidered by a responsible official for adequacy based on actual experience. It was noted that this is currently not being performed on a routine basis. We recommend that lives of fixed assets be challenged to accurately reflect their proper current value.

Management Response

The District began tracking and reporting fixed assets for GASB purposes June 30, 2003. The District hired an appraisal firm to establish the original value of the District's assets and the assets estimated life. The District acquired new software September 2005 that should help in the implementation of the recommendation.